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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, CHAIRMAN

GARY PIERCE

PAUL NEWMAN

SANDRA D. KENNEDY

BOB STUMP

IN THE MATTER OF THE APPLICATION
OF LITCHFIELD PARK SERVICE
COMPANY, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
WATER AND WASTEWATER RATES
AND CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO. SW-01428A-09-0103

IN THE MATTER OF THE APPLICATION
OF LITCHFIELD PARK SERVICE
COMPANY, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO. W-01427A-09-0104

NOTICE OF FILING TESTIMONY OF
RICHARD L. DARNALL

In accordance with the May 21, 2009 Procedural Order in this docket, the City
of Litchfield Park hereby files the Direct Testimony of Richard L. Darnall.

/ / /

/ / /

Arizona Corporation Commission

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ARIZONA CORPORATION COMMISSION
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1 DATED this 4th day of November, 2009.

2 CURTIS, GOODWIN, SULLIVAN,
3 UDALL & SCHWAB, P.L.C.

4 By: 
5 William P. Sullivan
6 Susan D. Goodwin
7 Larry K. Udall
8 501 East Thomas Road
9 Phoenix, Arizona 85012-3205
10 Attorneys for the City of Litchfield Park

11
12 **PROOF OF AND CERTIFICATE OF MAILING**

13 I hereby certify that on this 4th day of November, 2009, I caused the foregoing
14 document to be served on the Arizona Corporation Commission by delivering the original and fifteen
15 (15) copies of the above to:

16 Docket Control
17 Arizona Corporation Commission
18 1200 West Washington
19 Phoenix, Arizona 85007

20 COPY of the foregoing hand delivered/mailed
21 this 4th day of November, 2009 to:

22 Janice Alward, Chief Counsel
23 Legal Division
24 Arizona Corporation Commission
25 1200 West Washington
Phoenix, Arizona 85007

Lyn Farmer
Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

1 Steven M. Olea, Director
Utilities Division
2 Arizona Corporation Commission
1200 West Washington
3 Phoenix, Arizona 85007

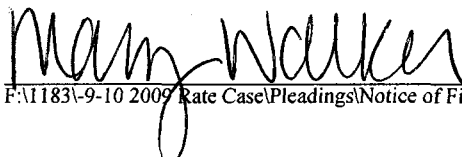
4 Jay L. Shapiro
Todd C. Wiley
5 FENNEMORE CRAIG PC
3003 N. Central Ave., Suite 2600
6 Phoenix, Arizona 85012
7 Attorneys for Litchfield Park Service Co.

8 Michelle Wood, Counsel
Residential Utility Consumer Office
9 1110 West Washington Street, Suite 220
Phoenix, Arizona 85007-2958

10 Martin Aronson
Robert J. Moon
11 Morrill & Aronson, PLC
One East Camelback Road, Suite 340
12 Phoenix, Arizona 85012-0000

13 Craig A. Marks
Craig A. Marks PLC
14 10645 North Tatum Blvd., Ste 200-676
Phoenix, Arizona 85028

15 Chad & Jessica Robinson
16 15629 W. Meadowbrook Ave.
Goodyear, Arizona 85395
17

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DOCKET NO. W-01427A-09-0104

DIRECT TESTIMONY OF RICHARD L. DARNALL

PRE-FILED DIRECT TESTIMONY
RICHARD L. DARNALL
ON BEHALF OF CITY OF LITCHFIELD PARK
Docket Nos. SW-01428A-09-0103 and W-01427A-09-0104

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RICHARD L. DARNALL
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Docket Nos. SW-01428A-09-0103 and W-01427A-09-0104

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Richard L. Darnall. I am a Partner in the consulting firm Utility Strategies Consulting Group, LLC ("USCG"). My business address is 4645 S. Lakeshore Drive, Tempe, Arizona, 85282.

Q. WHAT IS YOUR PROFESSIONAL EXPERIENCE?

A. I graduated from the University of Wyoming with a B.S. degree in accounting and received my C.P.A. certificate in Wyoming. I have over 30 years of utility accounting and finance experience, beginning with a large private electric utility and then working for a large consulting firm prior to establishing USCG. USCG provides utility consulting to a wide variety of water, wastewater and electric utilities.

Q. BRIEFLY SUMMARIZE YOUR PRIOR REGULATORY EXPERIENCE.

A. I have appeared before several state regulatory commissions including the Arizona Corporation Commission on water and other matters and have appeared before the Federal Energy Regulatory Commission. I have attached a list of appearances before the various commissions as Exhibit RLD-1.

Q. ON WHOSE BEHALF ARE TESTIFYING IN THIS PROCEEDING?

A. I am appearing on behalf of the City of Litchfield Park, Arizona ("City"), a municipal customer of Litchfield Park Services Company ("LPSCO").

SUMMARY OF TESTIMONY

Q. WOULD YOU BRIEFLY SUMMARIZE YOUR TESTIMONY?

A. I will first outline several issues that call the reasonableness of LPSCO's proposed rates into question. I will then discuss why LPSCO's removal of the revenues received from the City of Goodyear is inappropriate. I will then discuss some deficiencies identified with LPSCO's cost of service study. Finally, I propose a municipal rate classification.

**ISSUES CALLING REASONABLENESS OF
PROPOSED RATES INTO QUESTION**

**Q. DID YOU PERFORM A COMPLETE AND COMPREHENSIVE ANALYSIS OF
THE RATE FILING MADE BY LPSCO?**

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1 A. I reviewed the entire filing and the responses to data requests provided by LPSCO.
2 However, due to time and budget constraints, as of the deadline for filing this testimony, I
3 have not undertaken what I would classify as a comprehensive analysis of this complex
4 rate filing. My review of the application and responses to data requests, however, has
5 resulted in the identification of numerous issues which call into question the
6 reasonableness of the rates being requested by LPSCO.
7
8

9 **Q. WHAT WERE SOME OF THE ISSUES IDENTIFIED THROUGH YOUR**
10 **REVIEW THAT YOU BELIEVE CALL INTO QUESTION THE**
11 **REASONABLENESS OF THE RATES BEING REQUESTED?**
12

13 A. Issues identified as calling the reasonableness of the rates requested by LPSCO into
14 question include, but are not necessarily limited to the following:
15

16 1) Capital Structure/Financing: LPSCO's reliance on equity financing after being
17 acquired by Algonquin Water Resources of America (AWRA) rather than lower
18 cost debt or use of advances and contributions from developers, tends to drive up
19 the weighted cost of capital. Such use of equity can be imprudent where these
20 other sources of capital are reasonably available and would lower the cost of
21 service to rate payers.
22

23 2) Use of Related Companies: LPSCO relies almost exclusively upon related
24 companies to provide labor, management, financial and engineering services,
25 apparently without the benefit of any contractual arrangement whatsoever in
26 place. In an effort to check the reasonableness of the allocated cost, we requested
27 LPSCO to provide a listing of all persons employed by a related entity for whom
28 LPSCO was allocated a portion of their expense, their annual compensation, their
29 overheads and how these costs were allocated among the various affiliates. We
30 are still reviewing the spreadsheet provided by LPSCO, but it does not appear to
31 be fully responsive to our request. While LPSCO made an adjustment to back out
32 water profits charged by affiliates during the test year it is unclear whether a full
33 adjustment was made or whether LPSCO capitalized all or a portion of these
34 profits in prior years which would overstate rate base.
35

36 LPSCO also failed to provide an organizational chart of the Algonquin Power
37 monetary fund or to describe the operations of the funds among the various
38 divisions that are responsible for its various utility operations in the United States,
39 including Arizona.
40

41 3) Power Costs. LPSCO is requesting pro forma adjustments for future increases by
42 its power supplier APS. These increases occurred after the test year selected by
43 LPSCO. Further, LPSCO is annualizing expense for power related to its Airline
44 Reservoir. These adjustments are not fully supported by the application as known

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and measurable. LPSCO selected its test year. When asked why it selected the test year, it provided no rationale.

- 4) Rate Case Expense. Within a nine month period, LPSCO's owners have filed rate applications on six separate utilities in Arizona. They have elected to utilize a different test year for each filing. All the companies rely almost exclusively on related affiliates to supply their labor, financial, operational, managerial and engineering services, which are then allocated among and between the various utilities. This approach to rate filings may unreasonably increase rate case expenses.
- 5) Tax Expense. While LPSCO, as an Arizona corporation, is subject to state and federal taxes, in response to data requests LPSCO indicates that neither it nor its parent, AWRA, file tax returns. If neither LPSCO nor its parent is required to file state or federal tax returns, there is an issue as to whether its ratepayers should be paying rates that recover a non-existent cost.
- 6) Reduction in Revenues. LPSCO has removed revenues received from the City of Goodyear during the test year. This adjustment will be discussed later in my testimony.
- 7) New Construction. The rate application includes significant new water and sewer plant added over the last eight years in rate base. It is difficult to review the prudence of investments made over such an extended period of time. For example, LPSCO had invested in a joint treatment plant with the City of Goodyear. It then constructed its own treatment plant which then required extensive upgrades within six years of the plant going into service. Was the original plant poorly designed or poorly maintained and operated? In either case, LPSCO's ratepayers should not be required to provide a return on capital investments or pay labor costs needed to correct deficiencies that could have been avoided.
- 8) Cost of Service. Some of the allocation factors used in LPSCO's cost of service study are not supported by information currently available.
- 9) Rate Shock: LPSCO selected a test year that ends almost eight years after the test year used to set its current rates. LPSCO installed significant water and sewer plant throughout the period and has seen tremendous growth, yet chose not to seek an adjustment in rates. The net result is an application that seeks an increase in water revenues of approximately 116% and an increase in sewer revenues of approximately 79%.

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1 This is not an isolated occurrence by LPSCO's parent. Within the last three and a half
2 years rate applications have been filed seeking significant rate increases for various
3 Arizona utilities wholly owned by AWRA, including:
4

- 5 • A 99% increase in revenues for the Gold Canyon Sewer utility (Docket No. SW-
6 02519A-06-0015);
- 7 • A 58% for the Black Mountain Sewer utility (Docket No. SW-02361A-08-0609);
- 8 • A 111.36% increase for the Rio Rico water utility (Docket No. WS-02676A-09-
9 0257);
- 10 • A 27% increase for the Bella Vista utility (Docket No. W-02465A-09-0411);
- 11 • A 133% increase for the Northern Sunrise utility (Docket No. W-20453A-09-
12 0412); and
- 13 • Just under a 70% increase for their Southern Sunrise utility (Docket No. W-
14 20453A-09-0413).
- 15

16 In most instances the time between test years was between four and eight years, with the
17 two Sunrise utilities being somewhat shorter.
18

19 **Q. DO THE FOREGOING ISSUES WARRANT CLOSE EXAMINATION BY THE**
20 **COMMISSION?**
21

22 A. Yes they do.
23

24 **Q. WHICH OF THE FOREGOING ISSUES WILL YOU BE DISCUSSING**
25 **FURTHER IN YOUR DIRECT TESTIMONY?**
26

27 A. I will be addressing LPSCO's proposed revenue adjustment related to water sales to
28 Goodyear, the allocated cost of service study prepared by LPSCO witness Mr. Thomas J.
29 Bourassa and a rate for municipalities.
30

31 **Q. WILL YOU BE ADDRESSING THE OTHER ISSUES IN YOUR DIRECT**
32 **TESTIMONY?**
33

34 A. No. The City intends to pursue additional discovery and to monitor these and other
35 issues throughout the hearing process. It anticipates that Commission Staff and the
36 Residential Utility Consumer Office ("RUCO") will address many of these issues. The
37 City, at some point in these proceedings, such as in rebuttal testimony, at hearing or in
38 post-hearing briefing, may take a position on one or more of these and other issues, but is
39 not in a position to do so at this time.
40
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ADJUSTMENT TO REVENUES

Q. DID YOU MAKE ANY ADJUSTMENTS TO LPSCO'S REVENUE REQUIREMENTS PRIOR TO PERFORMING THE COST OF SERVICE STUDY?

A. Yes, I made one adjustment to LPSCO's revenue requirements. LPSCO deducted the \$403,707 in metered sales revenues associated with the City of Goodyear. I removed this adjustment, or added back the revenues associated with the City of Goodyear.

Q. WHY DID YOU ADD BACK THESE REVENUES?

A. There are two reasons these revenues were added back into the adjusted test year revenue requirements. First, the adjustment was not known and measurable at the end of the test year. LPSCO witness Mr. Greg Sorenson states on page 13, lines 14 and 15 of his direct testimony that the company is concerned that the arrangement may not continue into the future. While this event may happen in the future, it did not occur in the test year and it is uncertain as to when it will occur. Second, LPSCO witness Bourassa removed the revenues, but did not make any adjustments to operating expenses or rate base. If LPSCO is going to lose revenues associated with the sale of 301,780 m/gals., or about 8.5%, of annual water sales, there would certainly be a reduction in power for pumping costs as well as chemical costs. Additionally, the portion of plant serving the City of Goodyear may no longer be considered used and useful. Exhibit RLD-2, page 1, attached to my testimony, shows the adjustment I made to LPSCO's Metered Water Sales.

COST OF SERVICE ISSUES

Q. WHAT ADJUSTMENTS DID YOU MAKE TO LPSCO'S COST OF SERVICE ANALYSIS?

A. Exhibit RLD-2, page 3, attached to my testimony compares LPSCO's Net Income at present rates by customer meter size with the cost of service I have prepared. My adjustment to the revenues from metered sales for the City of Goodyear and the calculation of the provision for income taxes instead of allocating income taxes based upon proposed rates, results in a total increase in net income, or return, of \$2,646,404.

Q. PLEASE EXPLAIN YOUR CALCULATION OF THE PROVISION FOR INCOME TAXES.

A. LPSCO witness Mr. Bourassa included in his Schedule G-1, Operating Margins at Present Rates, the provision for income taxes of \$2,448,800 which is based upon the proposed rates and then allocated this amount of income taxes to each customer meter size according to the ratio of each customer classes net income and income taxes to the total company. This calculation results in a circular formula because income taxes have

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1 to be computed before net income can be determined. His calculation is shown on my
2 Exhibit RLD-2, page 4, lines 12 through 17. I have calculated the provision for income
3 taxes for each meter size and total company. This calculation is shown on lines 1 through
4 6 of Exhibit RLD-2, page 4. Of course, this assumes that the Commission determines
5 recovery of income tax expense is appropriate for LPSCO.
6

7 **Q. WHAT OTHER CHANGES HAVE YOU MADE TO THE COST OF SERVICE**
8 **STUDY?**
9

10 A. I made three changes to LPSCO's cost of service allocation factors. First, I changed the
11 allocation of purchased power and fuel for pumping costs between demand and
12 commodity from 100% commodity to 95% commodity and 5% demand.
13

14 **Q. WHAT WAS THE BASIS FOR MAKING THIS CHANGE?**
15

16 A. A review of the APS invoices showed that approximately 5.0% of the cost of power is
17 demand related, or based upon the amount of kilowatt demand that is metered. This
18 demand reflects the size of the motor and pump utilized to meet LPSCO's system
19 demands.
20

21 **Q. PLEASE EXPLAIN THE OTHER ADJUSTMENTS YOU MADE TO THE COST**
22 **OF SERVICE ALLOCATION FACTORS.**
23

24 A. LPSCO witness Mr. Bourassa allocated demand costs using as a basis the equivalent
25 number of meters. Typically, demand costs are allocated based upon the peak daily, or
26 hourly, demand of the system. The use of the equivalent meters factor gives some
27 recognition to demands on the system, but at the customer service and meter level, and
28 not at the system level. Accordingly, I used 1.80 times the average daily demand. This
29 demand factor comes from the water system master plan prepared for LPSCO by its
30 consulting engineers. Additionally, I used the number of equivalent meters to allocate
31 services and meter related costs instead of the weighted capital investment. The
32 equivalent number of meters allocation factor gives recognition to the sizing of the
33 service and meter sizes needed to serve an individual customer. The weighted capital
34 investment used by LPSCO has no relationship to the actual cost of installing a service
35 and meter for a customer. For example, LPSCO uses a cost of \$445.00 as the installation
36 cost for a 3/4-inch meter, yet its average cost per LPSCO's cost of service is \$275.00 for
37 all services. My allocation factors are shown on Exhibit RLD-2, page 5.
38
39

40 **Q. WHAT ARE THE RESULTS OF USING YOUR ALLOCATION FACTORS ON**
41 **THE COST OF SERVICE?**
42

43 A. The use of different cost of service factors shifts costs among the customer class meter
44 sizes, but does not have an effect on the overall revenue requirements. Accordingly, the

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1 results of my cost of service analysis shifts costs from the ¾-inch and 1-inch customer
2 class to the 1½-inch and larger classes.
3

4 **MUNICIPAL RATE**
5

6 **Q. DO YOU HAVE ANY OTHER RECOMMENDATIONS RELATING TO THE**
7 **TREATMENT OF MUNICIPAL CUSTOMERS?**
8

9 A. Municipal accounts reflect usage that is designed to meet the public's needs. Because of
10 this, not too long ago it was relatively common to set municipal rates to recover a
11 somewhat lower rate of return than other customers. During these difficult economic
12 times municipalities are facing severe budget cuts. Water for public amenities such as
13 parks and common areas are often among the first cost saving measures to be
14 implemented. Municipal water rates can be designed to encourage municipalities to
15 maintain open spaces and parks and to generally preserve the established quality of life in
16 their communities. Therefore, I also propose a municipal rate be developed.
17

18 **Q. HAS LPSCO DEVELOPED SPECIAL RATES FOR OTHER CUSTOMERS?**
19

20 A. Yes. It has a special rate for construction service customers and is proposing a special
21 rate for low income customers.
22

23 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**
24

25 A. Yes it does.
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**RECORD OF TESTIMONY
OF
RICHARD L. DARNALL**

UTILITY (APPLICANT)	REGULATORY AGENCY	DOCKET NUMBER	DATE	ORGANIZATION ON WHOSE BEHALF TESTIMONY WAS PRESENTED	SUBJECT(S) OF TESTIMONY
1. Eastern New Mexico Natural Gas Company	New Mexico Public Service Commission	Case No. 1123	1974	Eastern New Mexico Natural Gas Company	Revenue requirements.
2. Southern Union Gas Company	New Mexico Public Service Commission	Case No. 1124	1974	Lea County Electric Cooperative	Cost of gas adjustment, including rate of return.
3. Southern Union Gas Company	New Mexico Public Service Commission	Case No. 1198	1975	Lea County Electric Cooperative	Total company revenue.
4. Trico Electric Cooperative	Arizona Corporation Commission	Docket No. U- 1461	1976	Trico Electric Cooperative	Revenue Requirements.
5. Public Service Company of New Mexico	New Mexico Public Service Commission	Case No. 1233	1976	United States Air Force	Revenue requirements including rate of return and cost of service.
6. Lea County Electric Cooperative	New Mexico Public Service Commission	Case No. 1280	1976	Lea County Electric Cooperative	Revenue requirements and cost of service.
7. Public Service Company of New Mexico	Federal Power Commission	Docket No. E-9454	1977	City of Gallup, New Mexico	Revenue requirements.
8. Southern Union Gas Company	Arizona Corporation Commission	Docket No. U- 1240	1976	Southwest Forest Company	Revenue requirements and cost of service.
9. Gas Company of New Mexico	New Mexico Public Service Commission	Case No. 1301	1977	Lea County Electric Cooperative	Revenue requirements and cost of service.
10. Arizona Public Service Company	Federal Energy Regulatory Commission	Docket No. ER77-521	1977	Group of Electrical Irrigation Districts	Revenue requirements.
11. Arizona Public Service Company	Federal Energy Regulatory Commission	Docket No. ER78-145	1978	Group of Electrical Irrigation Districts	Revenue requirements.
12. Gas Company of New Mexico	New Mexico Public Service Commission	Case No. 1440	1978	Lea County Electric Cooperative	Revenue requirements including rate of return.
13. Arizona Public Service Company	Federal Energy Regulatory Commission	Docket No. ER79-126	1979	Group of Electrical Irrigation Districts	Revenue requirements.
14. El Paso Electric Company	Texas Public Utilities Commission	Docket No. 2641	1979	Border Steel Mills, Inc.	Revenue requirements.

Continued/...

**RECORD OF TESTIMONY
OF
RICHARD L. DARNALL**

UTILITY (APPLICANT)	REGULATORY AGENCY	DOCKET NUMBER	DATE	ORGANIZATION ON WHOSE BEHALF TESTIMONY WAS PRESENTED	SUBJECT(S) OF TESTIMONY
15. Public Service Company of New Mexico	Federal Energy Regulatory Commission	Docket No. ER78-338	1980	City of Gallup, New Mexico	Revenue requirements including rate of return and coal subsidiary.
16. Southern Union Gas Company	El Paso Utility Board	No Docket No.	1980	Border Steel Mills, Inc.	Revenue requirements, cost requirements.
17. El Paso Electric	Texas Public Utilities Commission	Docket No. 3254	1980	Border Steel Mills, Inc.	Revenue requirements.
18. Public Service Company of New Mexico	Federal Energy Regulatory Commission	Docket No. ER79-478	1980	City of Gallup, New Mexico	Revenue requirements including rate of return and coal subsidiary.
19. Public Service Company of New Mexico	Federal Energy Regulatory Commission	Docket No. ER80-313	1981	City of Gallup, New Mexico	Revenue requirements and coal subsidiary.
20. Arizona Public Service Company	Federal Energy Regulation Commission	Docket No. ER81-179	1981	Group of Electrical Irrigation Districts	Revenue requirements.
21. Public Service Company of New Mexico	Federal Energy Regulatory Commission	Docket No. ER81-187	1981	Cities of Gallup and Farmington, New Mexico	Revenue requirements including rate of return.
22. Southern Union Gas Company	El Paso Utility Board	No Docket No.	1981	Border Steel Mills, Inc.	Revenue requirements. including rate of return, cost of service and rate design.
23. Arizona Public Service Company	Federal Energy Regulatory Commission	Docket No. ER81-179	1982	Group of Electrical Irrigation Districts	Revenue requirements.
24. El Paso Electric Company	Texas Public Utilities Commission	Docket No. 4620	1982	Border Steel Mills, Inc.	Revenue requirements including rate of return.
25. Southern Union Gas Company	El Paso Utility Board	No Docket No.	1982	Border Steel Mills, Inc.	Revenue requirements, cost of service and rate design.
26. Arizona Public Service Company	Federal Energy Regulatory Commission	Docket No. ER82-481	1983	Group of Electrical Irrigation Districts	Sale of tax benefits and revenue requirements.
27. Trico Electric Cooperative	Arizona Electric Commission	Docket No. 1461-84-181	1985	Community Water Company	Off-peak pumping rate.
28. Citizens Utility Company	Arizona Corporation Commission	Docket No. 1032-84213	1985	State of Arizona Residential Utility Customer Office	Revenue requirements including rate of return, purchased power, and cost of service.
29. Arizona Water Company	Arizona Corporation Commission	Docket No. 1445-85-037	1986	State of Arizona Residential Utility Customer Office	Cost of Service and rate design.

Continued/...

**RECORD OF TESTIMONY
OF
RICHARD L. DARNALL**

UTILITY (APPLICANT)	REGULATORY AGENCY	DOCKET NUMBER	DATE	ORGANIZATION ON WHOSE BEHALF TESTIMONY WAS PRESENTED	SUBJECT(S) OF TESTIMONY
30. Citizens Utility Company	Arizona Corporation Commission	Docket No. 1032-96-020	1986	Santa Cruz Chamber of Commerce	Cost of service and rate design.
31. Citizens Utility Company	Arizona Corporation Commission	Docket No. 1032-86-020	1986	State of Arizona, Residential Utility Consumer Office	Revenue requirements.
32. American Telephone & Telegraph Communications of the Mountain States	Arizona Corporation Commission	Docket No. U-2428-86- 268	1987	State of Arizona, Residential Utility Consumer Office	Cost of Capital.
33. Louisiana Power & Light	Council of the City of New Orleans	Docket No. CD-86-11	1988	Council of the City of New Orleans	Accounting for the abandonment of a nuclear power plant.
34. Potomac Electric Power Company	District of Columbia, Public Service Commission	Formal Case No. 869	1988	United States of America, General Services Administration	Cash working capital, accounting treatment of the IRS audit adjustments, and 1986 Tax Reform Act.
35. Gas Company of New Mexico	New Mexico Public Services Commission	Docket No. 1469	1989	County of Los Alamos, NM	Gas standby rates.
36. Gas Company of New Mexico	New Mexico Public Services Commission	Docket No. 1688	1989	County of Los Alamos, NM	Gas buy down and buyback issues.
37. Georgia Power Company	Georgia Public Services Commission	Docket No. U- 3840	1989	Georgia Public Services Commission	Affiliate transactions.
38. Peeples Valley Water Co.	Arizona Corporation Commission	Docket No.	2004	Peeples Valley Water Co.	Revenue requirements and Cost of service.

Litchfield Park Service Company - Water Division

Test Year Ended September 30, 2008

Income Statements and Adjustments

Exhibit RLD-2

Page 1

Witness: Darnall

Line No.	(a)	©				(e)	(f)
		Test Year Book Results (1)	LPSCO Test Year Adjustments (1)	LPSCO Adjusted Results (1)	City of Litchfield Adjustments (2)		
1	Revenues (Present Rates)						
2	Metered Water Sales	\$ 6,723,508	\$ (376,027)	\$ 6,347,481	\$ 403,707	\$ 6,751,188	
3	Other Water Revenues	\$ 127,522	-	\$ 127,522	-	\$ 127,522	
4	Total Revenues	\$ 6,851,030	\$ (376,027)	\$ 6,475,003	\$ 403,707	\$ 6,878,710	
5							
6	Operating Expenses						
7	Operation and Maintenance Ex	\$ 4,483,388	\$ 58,890	\$ 4,542,278	\$ -	\$ 4,542,278	
8	Depreciation and Amortization	\$ 1,328,875	\$ 963,107	\$ 2,291,982	\$ -	\$ 2,291,982	
9	Property Taxes	\$ 131,496	\$ 241,858	\$ 373,354	\$ -	\$ 373,354	
10	Income Taxes	\$ 806,532	\$ (1,256,248)	\$ (449,716)	\$ 155,817	\$ (293,899)	
11	Total Operating Expenses	\$ 6,750,291	\$ 7,607	\$ 6,757,898	\$ 155,817	\$ 6,913,715	
12							
13	Net Income	\$ 100,739	\$ (383,634)	\$ (282,895)	\$ 247,890	\$ (35,005)	

References:

- 1). From Schedule C-1, page 1 LPSCO Rate Filing
- 2). From Page Exhibit RLD-2, page 2.

Litchfield Park Services Company - Water Division
Test Year Ended September 30, 2008
Adjustment to Metered Sales Revenues

Exhibit RLD-2
Page 2
Witness: Darnall

Line No.		Amount (a)
1	<u>Removal of Adjustment to Metered Sales Revenues</u>	
2	<u>for City of Goodyear</u>	\$ 403,707
3		
4		
5		
6		
7		
8		
9		
10		

Litchfield Park Services Company - Water Division
 Test Year Ended September 30, 2008
 Summary Comparison of Cost of Service Analyses

Exhibit RLD-2
 Page 3
 Witness: Darnall

Line No.	(a) Customers by Meter Size	Net Income by Customer Class		
		(b) LPSCO (1)	(c) Per City Litchfield (2)	(d) Difference
1	Customers by Meter Size			
2	5/8" x 3/4"	\$ 1,000	\$ 860	\$ (140)
3	3/4"	\$ (3,211,078)	\$ (353,954)	\$ 2,857,124
4	1"	\$ (1,219,955)	\$ (73,235)	\$ 1,146,720
5	1 1/2"	\$ 127,395	\$ (8,602)	\$ (135,997)
6	2"	\$ 1,045,046	\$ 43,298	\$ (1,001,748)
7	4"	\$ 148,433	\$ (13,210)	\$ (161,643)
8	8"	\$ -	\$ (61,719)	\$ (61,719)
9	10"	\$ (4,743)	\$ (935)	\$ 3,808
10	Total	\$ (3,113,902)	\$ (467,498)	\$ 2,646,404
11				

References

- 1). From LPSCO Schedule G-1, page 1.
- 2). From Exhibit RLD-2 page 6.

Litchfield Park Services Company - Water Division
Test Year Ended September 30, 2008
Allocation of Income Taxes at Present Rates

Exhibit RLD-2
Page 4
Witness: Darnall

Line No.	Meter Size->	Totals	5/8" x 3/4"	3/4"	1"	1 1/2"	2"	3"	4"	6"	8"	10"
1	Alternate Income Tax Allocation (1)											
2	Total Revenues	\$ 6,878,709	\$ 35,568	\$ 2,139,440	\$ 2,207,415	\$ 276,385	\$ 1,598,661	\$ -	\$ 199,928	\$ -	\$ 403,723	\$ 17,587
3	Total TOTI	\$ 7,207,612	\$ 32,519	\$ 2,583,314	\$ 2,204,680	\$ 271,418	\$ 1,426,039	\$ -	\$ 205,511	\$ -	\$ 466,322	\$ 17,810
4	Interest Expense	\$ 432,493	\$ 1,648	\$ 132,599	\$ 122,012	\$ 18,977	\$ 102,104	\$ -	\$ 15,932	\$ -	\$ 37,922	\$ 1,300
5	Taxable Income	\$ (761,396)	\$ 1,401	\$ (576,473)	\$ (119,276)	\$ (14,009)	\$ 70,518	\$ -	\$ (21,515)	\$ -	\$ (100,520)	\$ (1,522)
6	Income Tax @ 38.6 %	\$ (293,899)	\$ 541	\$ (222,519)	\$ (46,041)	\$ (5,408)	\$ 27,220	\$ -	\$ (8,305)	\$ -	\$ (38,801)	\$ (588)
7												
8												
9	Income Tax Allocation per											
10	LPSCO Witness Bourassa (2)											
11												
12	Income Tax Allocation	(1,165,103)										
13	Net Income & Income Tax											
14	Percent of Taxable Income		0%	89%	48%	-4%	-29%	0%	-4%	0%	0%	0%
15	Income Tax		2,448,800	2,448,800	2,448,800	2,448,800	2,448,800	2,448,800	2,448,800	2,448,800	2,448,800	2,448,800
16	Allocated Income Tax		(678)	2,175,844	1,165,451	(86,323)	(708,128)	-	(100,579)	-	-	3,214
17	Income Tax											
18												
19	Difference Increase(Decrease)	\$ (2,742,699)	\$ 1,218	\$ (2,398,362)	\$ (1,211,491)	\$ 80,916	\$ 735,349	\$ -	\$ 92,274	\$ -	\$ (38,801)	\$ (3,801)

References

- 1). From Exhibit RLD-2, Page 6, Witness: Darnall
- 2). From LPSCO Schedule G-1, page 1.

Litchfield Park Services Company - Water Division
 Test Year Ended September 30, 2008
 Allocated Cost of Service Factors

Exhibit RLD-2
 Page 5
 Witness: Darnall

Commodity Allocation Factor Demand Allocation Factor

Total Gallons (in 1,000's) in Test Year	Percent of Total	Average Gallons Per Day	Average Gallons Per Day
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Average Gallons Per Day	Peak Demand Factor (1)	Daily Peak Demand	Percent of Total
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Meter Size						
5/8" x 3/4"	13,649	0.39%	37	1.65	62	0.35%
3/4"	1,042,724	29.49%	2,857	1.75	4,999	28.55%
1"	1,009,774	28.56%	2,767	1.75	4,841	27.65%
1 1/2"	164,274	4.65%	450	1.80	810	4.63%
2"	866,848	24.52%	2,375	1.85	4,394	25.09%
3"	0	0.00%	0		0	0.00%
4"	126,502	3.58%	347	2.00	693	3.96%
6"	0	0.00%	0		0	0.00%
8"	301,780	8.53%	827	2.00	1,654	9.44%
10"	10,338	0.29%	28	2.00	57	0.32%
Totals	3,535,889	100.00%	9,687	1.81	17,510	100.00%

Service/Meters Allocation Factor

Number of Meters/Services	Equivalent Weight Factor (2)	Equivalent No. of Meters/ Services	Percent of Total
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Number of Meters	Percent of Total
------------------------	------------------------

Meter Size						
5/8" x 3/4"	116	1.0	116	0.34%	116	0.75%
3/4"	9,055	1.5	13,583	39.95%	9,055	58.52%
1"	5,489	2.5	13,723	40.37%	5,489	35.47%
1 1/2"	182	5.0	910	2.68%	182	1.18%
2"	608	8.0	4,864	14.31%	608	3.93%
3"	0	16.0	0	0.00%	0	0.00%
4"	21	25.0	525	1.54%	21	0.14%
		50.0	0	0.00%		0.00%
8"	2	80.0	160	0.47%	2	0.01%
10"	1	115.0	115	0.34%	1	0.01%
Totals	15,474		33,995	100.00%	15,474	100.00%

References:

- 1). From Carollo Engineers Water and Sewer Master Plan, Page 3-5.
- 2). From LPSCO Rate Filing Schedule G-7, page 3

Litchfield Park Service Company - Water Division
Test Year Ended September 30, 2008
Cost of Service Study, Using Commodity Demand Method
Operating Margins at Present Rates
As Adjusted for Allocation Factors and Income Tax Allocation

Exhibit RLD-2
Page 6
Witness: Damall

Meter Size-->	Totals	5/8" x 3/4"	3/4"	1"	1 1/2"	2"	3"	4"	6"	8"	10"	Totals
Water Revenues	\$ 6,722,618	\$ 33,349	\$ 2,072,857	\$ 2,169,094	\$ 266,823	\$1,570,524	-	\$ 188,685	-	\$ 403,707	\$ 17,579	\$ 6,722,618
Revenue Annualizations	27,680	1,256	(8,559)	(7,229)	8,052	23,091	-	11,068	-	-	-	27,680
Misc. Revenues ¹	127,522	956	74,622	45,235	1,500	5,011	-	173	-	16	8	127,522
Reconciliation H-1 to C-11	889	7	520	315	10	35	-	1	-	0	0	889
Total Revenues	\$ 6,878,709	\$ 35,568	\$ 2,139,440	\$ 2,207,415	\$ 276,385	\$1,598,661	\$ -	\$ 199,928	\$ -	\$ 403,723	\$ 17,587	\$ 6,878,709
Operating Expenses	\$ 4,542,277	\$ 22,080	\$ 1,722,970	\$ 1,380,491	\$ 163,654	\$ 840,586	\$ -	\$ 120,204	\$ -	\$ 282,532	\$ 9,760	\$ 4,542,277
Depreciation and Amortization	2,291,982	8,508	744,222	704,378	92,762	498,684	-	74,455	-	161,877	7,095	2,291,982
Property Tax	373,354	1,931	116,122	119,811	15,001	86,770	-	10,851	-	21,913	955	373,354
Income Tax	(293,899)	541	(222,519)	(46,041)	(5,408)	27,220	-	(8,305)	-	(38,801)	(588)	(293,899)
Total Operating Expenses	\$ 6,913,714	\$ 33,060	\$ 2,360,795	\$ 2,158,639	\$ 266,010	\$1,453,259	\$ -	\$ 197,206	\$ -	\$ 427,521	\$ 17,222	\$ 6,913,714
Operating Income	\$ (35,004)	\$ 2,508	\$ (221,355)	\$ 48,776	\$ 10,375	\$ 145,402	\$ -	\$ 2,722	\$ -	\$ (23,798)	\$ 365	\$ (35,005)
Interest Expense	432,493	1,648	132,599	122,012	18,977	102,104	-	15,932	-	37,922	1,300	432,493
Net Income	\$ (467,497)	\$ 860	\$ (353,954)	\$ (73,235)	\$ (8,602)	\$ 43,298	\$ -	\$ (13,210)	\$ -	\$ (61,719)	\$ (935)	\$ (467,497)
Rate Base	\$ 37,930,921	\$ 144,497	\$ 11,629,359	\$ 10,700,793	\$ 1,684,299	\$8,954,816	\$ -	\$ 1,397,296	\$ -	\$ 3,325,841	\$ 114,020	\$ 37,930,921
Return on Rate Base	-0.09%	1.74%	-1.90%	0.46%	0.62%	1.62%	0.00%	0.19%	0.00%	-0.72%	0.32%	-0.09%